



STATE OF ARIZONA

JANICE K. BREWER
GOVERNOR

EXECUTIVE OFFICE

April 7, 2011

The Honorable Russell Pearce
President of the Arizona State Senate
1700 W. Washington Street
Phoenix, Arizona 85007

The Honorable Kirk Adams
Speaker of the Arizona State House of Representatives
1700 W. Washington Street
Phoenix, Arizona 85007

Dear Mr. President and Mr. Speaker:

On Wednesday, I signed into law the state budget bills passed last week by the Legislature. I acknowledge and appreciate your leadership and cooperation in assisting to develop and pass this budget plan. If Arizona is to reclaim its standing as a national leader in economic growth, its state government must be cost-effective, efficient and fiscally-stable. This budget plan puts the state on the right path in all three categories. Together with passage of the Arizona Economic Competitiveness Package and the creation of my comprehensive Medicaid reform plan, this legislative session should be remembered as one of the most productive in state history.

The State of Arizona has now reached an important milestone on the road to recovery: Arizona will have a balanced budget for the upcoming fiscal year. This is quite an accomplishment. When I entered office in late January 2009, Arizona was rated as having one of the worst, if not *the* worst, state budget deficits on a per-capita basis in the nation. And, at the beginning of this year, Arizona faced a General Fund budget deficit of more than \$1 billion.

Through a combination of careful stewardship and difficult choices, I believe that we have done as much as possible to protect Arizona's priorities in education and public safety, while maintaining a safety net for our most vulnerable. As painful as many of the spending cuts will be, they are nevertheless essential to the necessary realignment of the State's revenues and expenditures. This budget employs targeted cuts to reduce the size and scope of government, and implements significant reforms that will help keep the budget balanced in future years.

Meanwhile, we avoided across-the-board cuts that impede prioritization and diminish the effectiveness of government without reducing its reach or responsibilities.

Most important, this budget recognizes the need to comprehensively reform our state Medicaid program: AHCCCS. Medicaid expenditures continue to be the key cost driver in the State budget. On-going Medicaid costs have grown from 17% of all General Fund expenditures in FY 2007 to 29% in the current fiscal year. Without any change, Medicaid expenditures threaten to consume spending devoted to all other state priorities, including education. On March 31, 2011, I submitted to the federal government a comprehensive Medicaid reform proposal that will make the necessary budget reductions while allowing current Medicaid members to retain their coverage. This budget incorporates that plan and provides the needed law changes for its implementation. Through negotiations with the federal government, the State of Arizona can now begin to gain the necessary approval to implement this plan and realize the projected savings.

Funding of our K-12 education system has been of particular interest to me and many legislators. Last year, I championed Proposition 100 in an effort to cushion future cuts to K-12 education. The adopted State budget keeps that promise, limiting K-12 cuts to roughly 2 percent of total education funding from all sources. I recognize these cuts will not be easy. Certainly they are larger than I first proposed. However, I'm satisfied that the majority of K-12 cuts were targeted at specific programs (such as limiting state vocational education funding to high school sophomores, juniors and seniors) and not general classroom spending. My goal was to avoid severely eroding base support for schools and core education programs. I believe this budget accomplishes that.

Solving Arizona's fiscal crisis is a team effort. This budget asks local governments to play their part. Having served as a Maricopa County Supervisor, I empathize with local governments and the difficulties they face in taking on additional state costs. This budget mitigates these cost shifts as much as possible – including offering an exemption to Arizona's 10 smallest counties. I'm grateful to local officials for their willingness to work with us throughout this budget process to minimize impacts upon taxpayers.

In addition to the above steps, this budget enacts a number of reforms that improve the State's positioning and the way it does business. Included in these reforms are:

- Retirement – State employees will be asked to pay a higher share of the cost of their retirement package.
- New Hires – All new employees will be hired on a benefit probation period – three months for health benefits, six months for retirement benefits. This is a practice commonly used in the private sector.
- Employee Health Care – The State will have a more robust employee Healthcare Savings Account plan. These plans encourage better management of employee health by giving

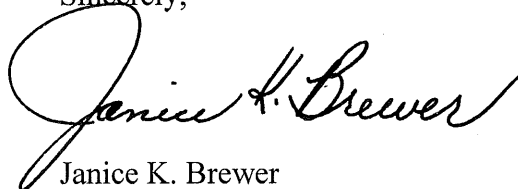
individuals a real asset in an account that they can use to fund needed health expenses. Effectively managed, this system will provide savings for both the employee and the State.

- Universities – The budget contemplates a plan that will fundamentally change how we fund our universities. The new system will be based on outcomes, a fairer financial aid model and greater uniformity between our three universities. It's worth noting that I called upon higher education leaders in 2009 to institute funding reform. I'm grateful to university Regents and Presidents for their work to reduce costs and minimize tuition increases, and I'm confident these institutions can manage these funding reductions.
- Housing Fund for the Mentally Ill – The budget establishes a new fund at the Department of Health Services to provide transitional housing for the State's mentally ill.
- Student Data System – As I proposed as part of my education reform plan, this budget asks all participants in our education system (kindergarten through higher education) to participate in a student accountability and information system that will provide the state the necessary data to track the effectiveness of Arizona schools. The State Board of Education will oversee the implementation of the system.

Lastly, I want to thank our State and other public employees who diligently and effectively work to deliver state services. For the last several years, they have worked in less-than-ideal circumstances but continue to perform at high levels. For that, all of Arizona is grateful.

In conclusion, a state budget is about more than numbers on a page. It's not simply a balance sheet. It's a statement of our priorities as a state, a roadmap of our ambitions. For me, this budget takes difficult but necessary steps to right-size state government, reform and improve its operations in critical areas and put Arizona on the road to fiscal prosperity once more. I look forward to working with you to ensure that State government continues to serve the people of Arizona in a fashion that is cost-efficient and effective.

Sincerely,

A handwritten signature in black ink, reading "Janice K. Brewer". The signature is fluid and cursive, with the first name "Janice" being the most prominent part.

Janice K. Brewer
Governor